



Sacramento Valley

Office Report | Q1-2006

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NAI BT Sacramento
840 Jefferson Blvd
West Sacramento, CA 95691
Tel 916-375-1500
Fax 916-376-8840

www.naibtcommercial.com



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Summary

The Sacramento Valley office market encompasses the cities of Auburn (North), Elk Grove (South), El Dorado Hills (East), and Woodland (West). The total building base for this market at the end of the first quarter of 2006 was 61.6 million square feet, comprised of 18.4 million square feet of Class A inventory, 23.6 million square feet of Class B, and 19.6 million square feet of Class C. Vacancy ended the first quarter at a rate of 13.9%, an increase from the 13.1% vacancy reported in the previous quarter. Total availabilities ended the quarter at 8.5 million square feet, up 640K square feet from Q4-05. Direct availability represented 92% of the available leasing market with 7.9 million square feet. Sublease space experienced a reduction from the previous quarter, declining 179,588 square feet to end the quarter at 649,868 square feet. The average asking rate for the first quarter 2006 remained unchanged at \$1.85 per square foot full service.

Vacancy rates varied among the submarkets in the Sacramento Valley office market. The submarkets of West Sacramento, Elk Grove and Davis reported the highest vacancy rates at 30.6%, 22.6% and 21.2% respectively. Elsewhere, vacancy rates reported single-digit values for the submarkets of Fair Oaks – Carmichael (2.1%), Auburn (4.1%), El Dorado Hills (7.4%), Citrus Heights – Orangevale (8.0%), and Folsom (9.5%). The Fair Oaks – Carmichael submarket witnessed the greatest quarterly vacancy reduction in the Sacramento Valley office market, declining 43% to end the quarter at 2.1%, while El Dorado Hills saw the most significant increase, growing by 45% to 7.4%.

The overall average asking rate in the Valley's office market was \$1.85 per square foot full service. There was significant disparity among the asking rates for the different classes of office space. Naturally, asking rates were highest for Class A (\$2.04), followed by Class B (\$1.87) and Class C (\$1.63). Class A space witnessed a \$0.03 decline during the quarter, while Class B added \$0.02 during the same time period. The three submarkets that reported asking rates above \$2.00 in the first quarter were Elk Grove, Roseville – Rocklin and Folsom at \$2.45, \$2.16 and \$2.03, respectively, while the submarkets that reported the most affordable rates were Citrus Heights – Orangevale (\$1.54), Woodland (\$1.57), Auburn (\$1.64) and Rancho Cordova (\$1.66).

Total new construction delivered 1.2 million square feet during the quarter. The largest delivery included a six-story Class A office building at Lincoln Plaza, Sacramento totaling 550,000 square feet. This was an expansion to the existing CalPERS headquarters and is 95% owner-occupied. Net absorption, which is the change in occupied building square footage in a given period, totaled 595,799 square feet.

The primary business districts that exist within the Sacramento Valley office market include Downtown Sacramento, Midtown Sacramento, and the Highway 50 Corridor. Downtown Sacramento has shown continued interest, with overall asking rates increasing by \$0.03 to \$2.07 per square foot full service. Vacancy declined by 80 basis points to end the quarter at 14.2%. Demand for Class A space was strong, indicative of the \$0.05 growth from the previous quarter to \$2.26. Midtown Sacramento is an economical alternative to its adjacent neighbor Downtown Sacramento. The product mix for this business district is predominantly low-rise suburban office of Class B & C nature. Vacancy remains fairly tight in this district, reporting 9.0% vacancy with an average asking rate of \$1.68 per square foot full service at the end of the first quarter of 2006.

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Summary (continued)

The Highway 50 Corridor district encompasses Rancho Cordova, Gold River and a portion of Sacramento. This district is known as the bargain district with an average asking rate of \$1.67 per square foot full service. However, vacancy remains high in this district at 18.1%, due to the addition of 1.2 million square feet of new construction in this region since 2002.

For the most notable lease and sale transactions completed in Sacramento Valley during the first quarter, please see below.

Notable Lease Transactions in Q1-2006

	<u>Address</u>	<u>City</u>	<u>Tenant</u>	<u>Rentable SF</u>
1	621 Capitol Mall	Sacramento	U.S. Bank	29,500
2	1415 L St	Sacramento	Bullivant Houser Bailey	24,900
3	621 Capitol Mall	Sacramento	Downey Brand Seymour & Rohwer	20,420
4	621 Capitol Mall	Sacramento	California Restaurant Association	19,528
5	2379 Gateway Oaks Dr	Sacramento	Harris & Sloan	14,693
6	1792 Tribute Rd	Sacramento	Driver Alliant	9,000
7	2151 River Plaza Dr	Sacramento	Digital Music Works	8,861
8	2280 Del Paso Rd	Sacramento	North American Title	8,479
9	2750 Gateway Oaks Dr	Sacramento	First 5 Sacramento Comission	8,300
10	Sierra College Blvd at Nightwatch Dr, Building C	Rocklin	Augustine & Associates	7,500

Notable Sale Transactions in Q1-2006

	<u>Address</u>	<u>City</u>	<u>Buyer</u>	<u>Total SF</u>
1	1100-1102 Q St	Sacramento	Griffin Capital	245,000
2	1740-1760 Creekside Oaks Dr	Sacramento	ECI Two Creekside Oaks LLC	180,000
3	3640 Northgate Blvd	Sacramento	James Hammonds Trust	29,710
4	11171 Sun Center Dr	Rancho Cordova	Volen Properties 6, LLC	35,841
5	2 Scripps Dr	Sacramento	Massie Kids IV Properties, LLC	30,000
6	2330 Gold Meadow Way	Gold River	Gary Quattrin	24,500
7	2150 Professional Dr	Roseville	Eureka Professional Ptrs, LLC	23,507
8	7501 Hospital Dr	Sacramento	Hospital Drive, LLC	23,251
9	2525-2529 Warren Dr	Rocklin	Four Guys and a Van, LLC	20,160
10	1801 7 th St	Sacramento	Sacramento R Street Properties, LLC	19,700

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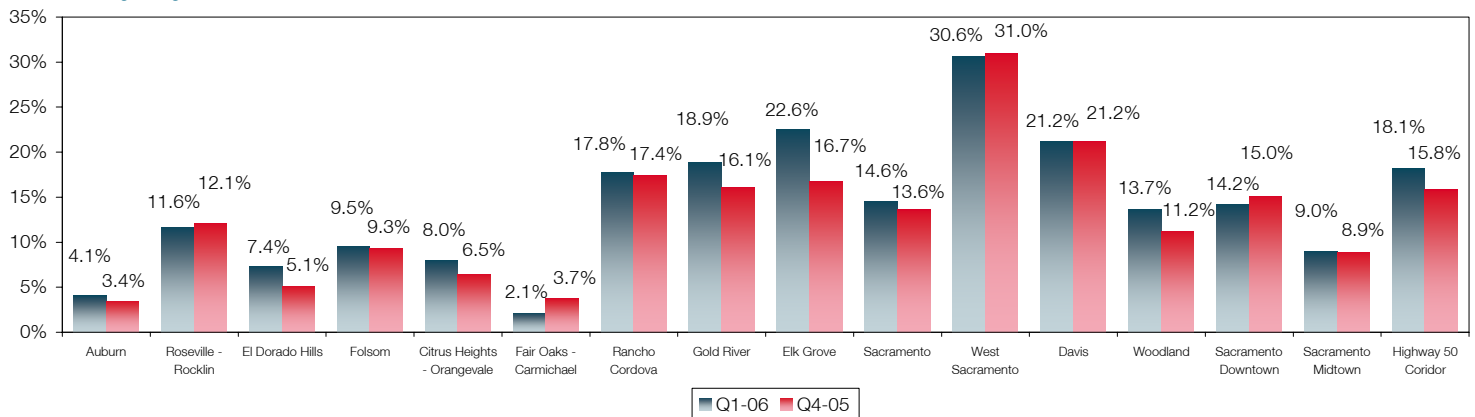
Market Summary

Submarket	Building Sq.Ft.	Available Space			Vacancy Rate		Avg. Asking Rate (FS)	Asking Rate Range (FS)
		Direct	Sublease	Total	Q1-06	Q4-05		
Auburn	575,550	23,410	0	23,410	4.1%	3.4%	\$1.64	\$0.85-\$2.40
Roseville - Rocklin	7,689,240	832,076	62,935	895,011	11.6%	12.1%	\$2.16	\$1.41-\$3.10
El Dorado Hills	1,089,650	61,571	18,651	80,222	7.4%	5.1%	\$1.85	\$1.75-\$3.00
Folsom	3,550,973	272,905	64,972	337,877	9.5%	9.3%	\$2.03	\$1.55-\$2.75
Citrus Heights - Orangevale	890,794	67,083	4,033	71,116	8.0%	6.5%	\$1.54	\$1.41-\$2.55
Fair Oaks - Carmichael	1,057,966	22,616	0	22,616	2.1%	3.7%	\$1.71	\$1.45-\$2.25
Rancho Cordova	6,125,739	1,042,687	44,666	1,087,353	17.8%	17.4%	\$1.66	\$0.99-\$1.95
Gold River	974,487	172,848	10,961	183,809	18.9%	16.1%	\$1.86	\$1.45-\$2.35
Elk Grove	838,564	189,281	0	189,281	22.6%	16.7%	\$2.45	\$1.75-\$3.25
Sacramento	38,847,772	5,217,876	443,650	5,661,526	14.6%	13.6%	\$1.83	\$1.00-\$3.25
West Sacramento	1,381,603	423,105	0	423,105	30.6%	31.0%	\$1.73	\$1.35-\$2.35
Davis	568,074	120,306	0	120,306	21.2%	21.2%	\$1.93	\$1.90-\$2.50
Woodland	488,503	66,776	0	66,776	13.7%	11.2%	\$1.57	\$1.13-\$2.29
Total Sacramento Valley	61,640,735	7,902,353	649,868	8,552,221	13.9%	13.1%	\$1.87	\$0.84-\$3.25

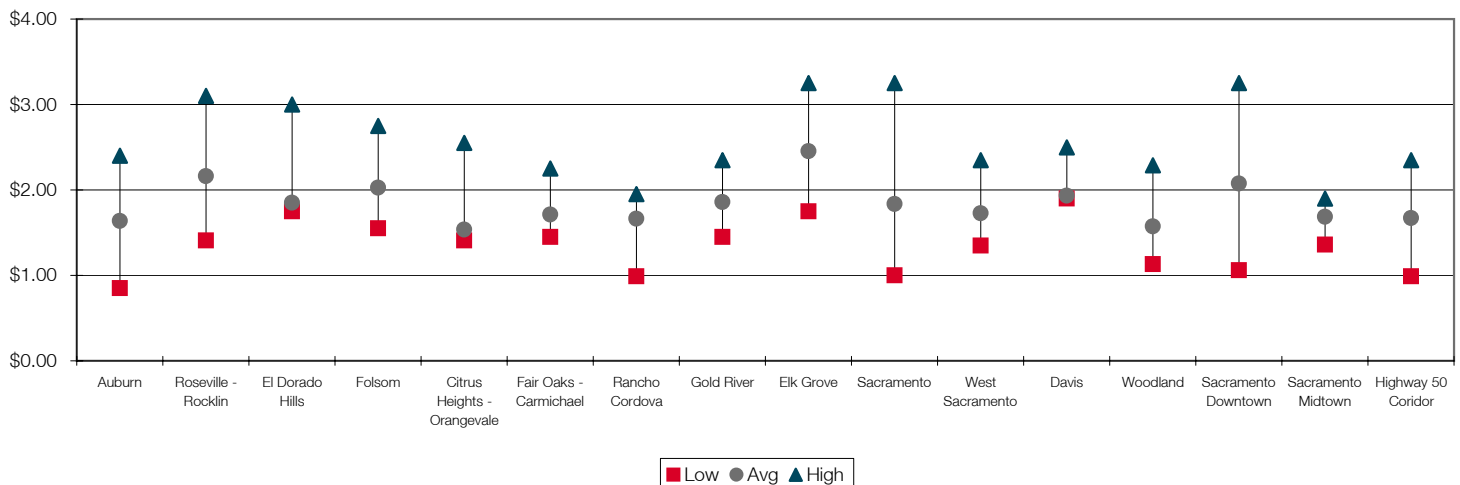
Business Districts

Sacramento Downtown	12,356,045	1,651,720	97,950	1,749,670	14.2%	15.0%	\$2.07	\$1.06-\$3.25
Sacramento Midtown	3,701,204	331,479	0	331,479	9.0%	8.9%	\$1.68	\$1.36-\$1.90
Highway 50 Corridor	12,893,727	2,211,236	128,265	2,339,501	18.1%	15.8%	\$1.67	\$0.99-\$2.35

Vacancy by Area



Market Average Asking Rates Per Square Foot Full Service



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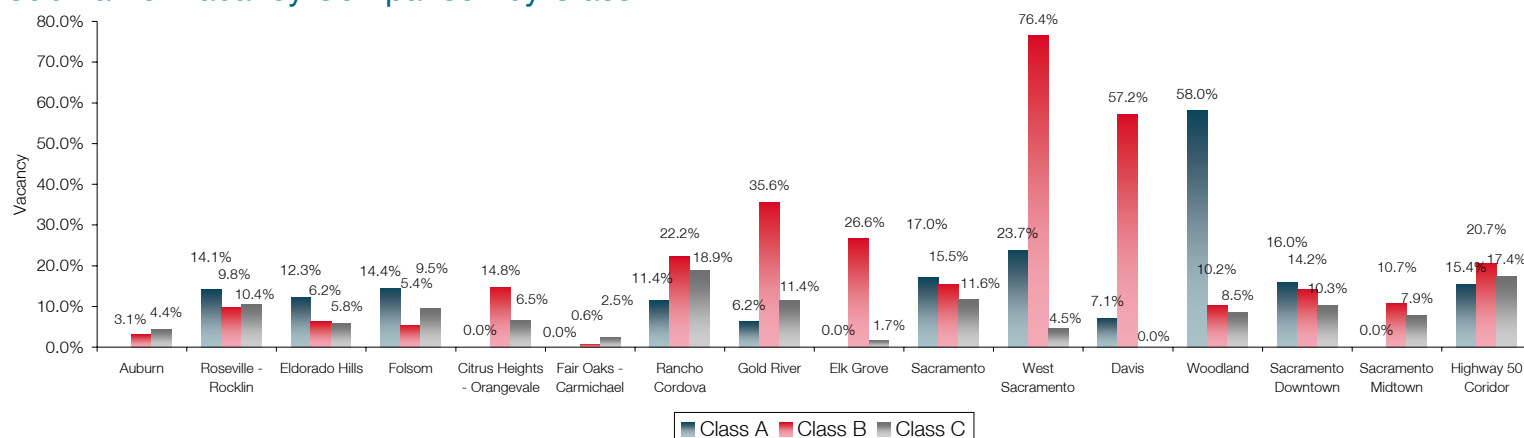


Class A, B & C Statistics

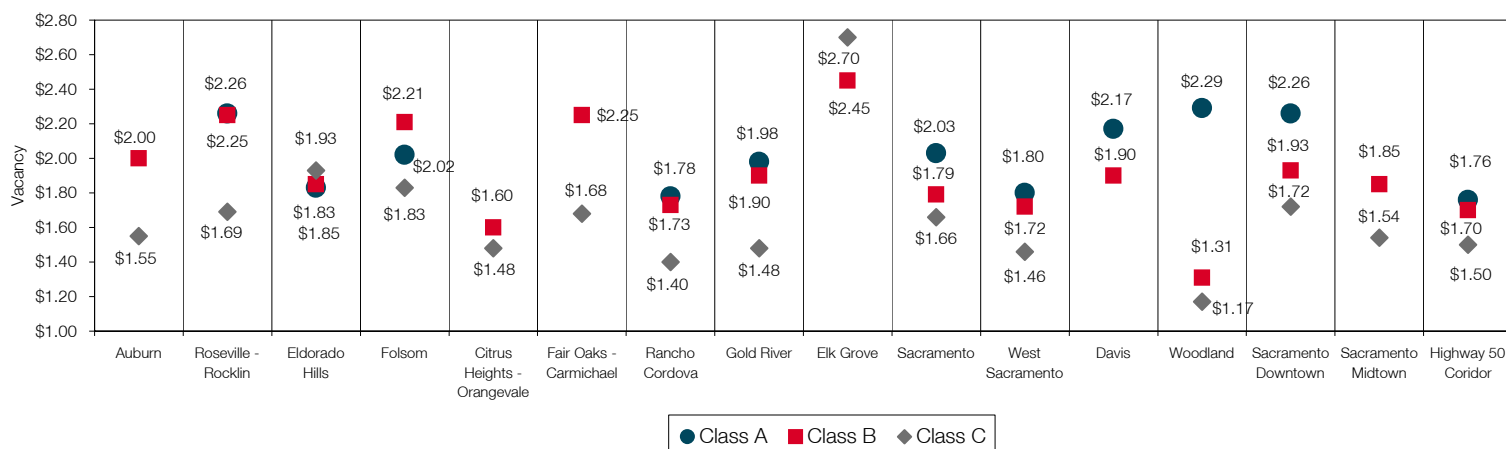
Submarket	CLASS A				CLASS B				CLASS C			
	Base	Available	Vacancy	Rate	Base	Available	Vacancy	Rate	Base	Available	Vacancy	Rate
Auburn	0	0	0.0%	\$0.00	148,490	4,541	3.1%	\$2.00	427,060	18,869	4.4%	\$1.55
Roseville - Rocklin	3,097,787	436,286	14.1%	\$2.26	3,178,284	311,384	9.8%	\$2.25	1,413,169	147,341	10.4%	\$1.69
El Dorado Hills	216,232	26,527	12.3%	\$1.83	745,269	46,205	6.2%	\$1.85	128,149	7,490	5.8%	\$1.93
Folsom	1,281,328	184,117	14.4%	\$2.02	1,516,972	82,187	5.4%	\$2.21	752,673	71,573	9.5%	\$1.83
Citrus Heights - Orangevale	80,000	0	0.0%	\$0.00	221,288	32,640	14.8%	\$1.60	589,506	38,476	6.5%	\$1.48
Fair Oaks - Carmichael	0	0	0.0%	\$0.00	193,685	1,225	0.6%	\$2.25	864,281	21,391	2.5%	\$1.68
Rancho Cordova	2,095,019	238,864	11.4%	\$1.78	2,639,801	585,744	22.2%	\$1.73	1,390,919	262,745	18.9%	\$1.40
Gold River	389,158	24,153	6.2%	\$1.98	383,243	136,581	35.6%	\$1.90	202,086	23,075	11.4%	\$1.48
Elk Grove	0	0	0.0%	\$0.00	702,267	186,931	26.6%	\$2.45	136,297	2,350	1.7%	\$2.70
Sacramento	11,269,915	1,918,995	17.0%	\$2.03	13,842,960	2,142,944	15.5%	\$1.79	13,734,897	1,599,587	11.6%	\$1.66
West Sacramento	478,791	113,510	23.7%	\$1.80	373,720	285,703	76.4%	\$1.72	529,092	23,892	4.5%	\$1.46
Davis	210,614	15,000	7.1%	\$2.17	184,240	105,306	57.2%	\$1.90	173,220	0	0.0%	\$0.00
Woodland	37,302	21,651	58.0%	\$2.29	184,240	18,830	10.2%	\$1.31	308,131	26,295	8.5%	\$1.17
Total	18,429,439	2,828,942	15.4%	\$2.04	23,572,259	3,530,382	15.0%	\$1.87	19,639,037	2,192,897	11.2%	\$1.63

Business Districts	CLASS A				CLASS B				CLASS C			
	Base	Available	Vacancy	Rate	Base	Available	Vacancy	Rate	Base	Available	Vacancy	Rate
Sacramento Downtown	5,974,714	955,221	16.0%	\$2.26	3,494,524	497,041	14.2%	\$1.93	2,886,807	297,408	10.3%	\$1.72
Sacramento Midtown	0	0	0.0%	\$0.00	1,450,040	154,743	10.7%	\$1.85	2,251,164	176,736	7.9%	\$1.54
Highway 50 Corridor	4,210,841	647,675	15.4%	\$1.76	5,497,119	1,137,580	20.7%	\$1.70	3,185,767	554,246	17.4%	\$1.50

Submarket Vacancy Comparison by Class

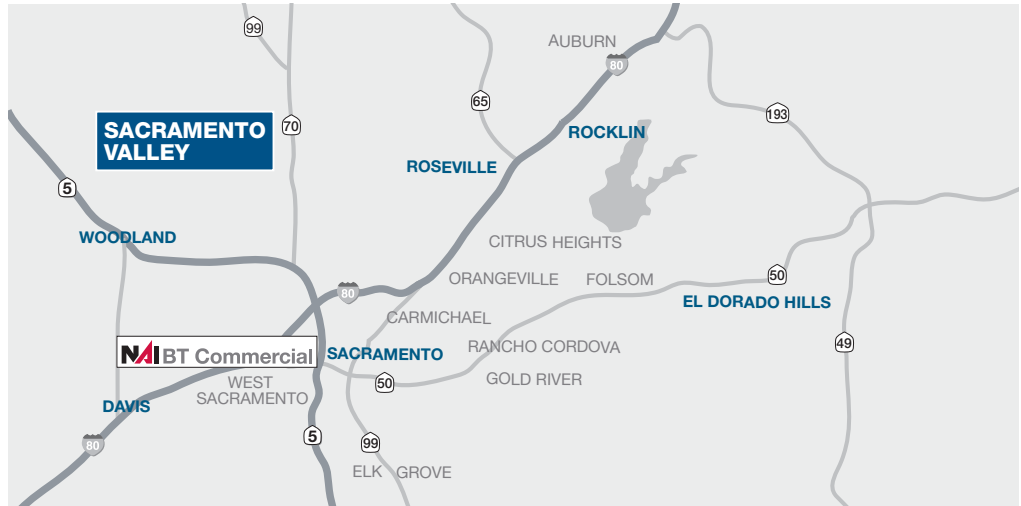


Submarket Average Asking Rate by Class Full Service



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Definitions

Class A Product

Steel and concrete construction, built after 1980, quality tenants, excellent amenities & premium rents.

Class B Product

Built after 1960, fair to good finishes & wide range of tenants.

Total Building Base

Includes Class A, Class B, Class C and Suburban Garden Office buildings over 10,000 square feet.

Direct Availabilities

Total square footage being marketed for lease by landlord available within 90 days. This may include availabilities with pending leases.

Sublease Availabilities

Total square footage being marketed for lease by sublessor.

Vacancy

Total available square footage (direct & sublease) divided by Total Building Base.

BTS (Build-to-Suit)

A method of leasing property whereby the landlord builds to suit the tenant (according to tenant's specifications). The cost of construction is figured into the rental amount of the lease, which is usually for a long term.

New Spec (Speculative)

A building constructed for lease or sale but without having a tenant or buyer before construction begins.

Gross Absorption

Total leasing and user sale activity in the marketplace in a given time period.

Net Absorption

Change in occupied building square footage in a given time period.

Avg. Asking Rate

Weighted Average Full Service Rate (by available square footage) of available spaces with NNN and Gross rates converted to Full Service rates.

Avg. Time on Market

Weighted Average Time on market (by available square footage) of available spaces reflected in months.

Availables by Size

Number of current available spaces for lease in the given size.

Historical Continuity

NAI BT maintains a building by building historical record. Comparing previous reports to this report may show different building size numbers and statistics. Changes are caused by reclassification of buildings and revised building sizes. Historical comparisons should be made from this report only as NAI BT adjusts the historical record accordingly.

Source

Data is tracked and tallied from information provided by The Costar Group.